

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

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FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 FEA-02 DODE-00 PA-04 USIA-15 PRS-01 DRC-01

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4212

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FROM EXIM CHAIRMAN CASEY FOR UNDER SECRETARY OF TREASURY
BENNETT, NATIONAL ADVISORY COUNCIL PRINCIPALS AND
SAUER EXIMBANK

EO 11652: N/A

TAGS: EAID EFIN EINV

SUBJ: EXPORT CREDIT GENTLEMAN'S AGREEMENT

1. REGRET INABILITY TO CONCUR PROPOSED CABLE FOR EC
COUNTRIES AND JAPAN RE EXPORT CREDITS.

2. DO NOT BELIEVE RIGID LIMITATION ON MATURITIES BELOW
75 MILLION REFLECT UNDERSTANDING WITH SECRETARY SIMON.
NO RECOLLECTION OF MENTION OF THAT OR ANY OTHER FIGURE.
(SEE MY LARTER OF AUGUST 21).

3. NOT SATISFIED THAT AS STATED YOUR PARAGRAPH 2 THAT
WITHOUT 75 MILLION DOLLAR LIMITATION THERE IS NO
POSSIBILITY OF ATTAINING AGREEMENT WITH EC MEMBER
COUNTRIES.

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4. EVEN IF THAT WERE THE CASE, DESIRE TO ATTAIN AGREE-

MENT AND NARROWING OF DIFFERENTIAL IN INTEREST RATES WOULD NOT JUSTIFY US GIVING UP FLEXIBILITY IN MATURITIES. THIS IS ONLY EXPORT CREDIT ELEMENT US HAS TO COMPETE WITH MORE FAVORABLE INTEREST, LOCAL COST, PARTICIPATION AND MIXED CREDIT TERMS WHICH EUROPEANS WOULD STILL RETAIN. SIX MONTHS AGO, US INCREASED ITS INTEREST RATE ON UNDERSTANDING OTHERS WOULD FOLLOW. HAVE FURTHER HARDENED TERMS SINCE THEN. NOW TO GET OTHERS TO FOLLOW, WHILE STILL STAYING BEHIND, US CANNOT JUSTIFY FURTHER CONCESSION BY RESTRICTING ITSELF WHERE IT CAN STILL COMPETE WHILE PERMITTING OTHERS TO RETAIN ADVANTAGES IN ALL OTHER AREAS.

5. I DO CONCUR IN RESTRICTING MATURITIES TO REACH AGREEMENT PROVIDED EXIM'S ABILITY TO MEET ITS STATUTORY MANDATE TO PROVIDE COMPETITIVE FINANCING IS PRESERVED. THIS CAN BE ACCOMPLISHED IN ONE OF TWO WAYS:

A. DEVELOP SUFFICIENTLY COMPREHENSIVE AGREEMENT TO PLACE EXIM ON RELATIVELY EVEN BASIS ON INTEREST, DEGREE OF OFFICIAL PARTICIPATION, LOCAL COST AND MIXED CREDITS, AS WELL AS MATURITIES, OR
B. RESERVE EXCEPTIONS OF MATURITY LIMITATION FOR SITUATIONS WHERE LONGER MATURITIES HAVE BEEN NECESSARY TO OVERCOME LOWER INTEREST RATES AND LOCAL COST, MIXED CREDITS ADVANTAGES OFFERED BY EUROPEANS AND JAPANESE. WITH SIZE EXCEPTION MEASURED BY NUMBER AS HIGH AS 75 MILLION IT WOULD BE NECESSARY TO HAVE SPECIFIC EXCEPTIONS FOR STEEL PLANTS, THERMAL POWER PROJECTS, POSSIBLY OTHERS. FOR 1971-74, 75 MILLION LIMITATION WOULD HAVE DISALLOWED 65 PERCENT OF STEEL AND 70 PERCENT OF POWER PROJECTS. WITH LOWER NUMBER, SPECIFIC EXCEPTIONS MIGHT BE REDUCED OR AVOIDED.

6. EVEN APART FROM US EXPORT INTEREST, THERE IS SERIOUS QUESTION ON WISDOM OF IMPAIRING US ABILITY TO FURTHER ITS POLITICAL, RESOURCE AND TECHNOLOGICAL INTERESTS BY PARTICIPATING IN LARGE HIGH PRICE PROJECTS WHERE INTRINSIC ECONOMICS JUSTIFY OR CALL FOR LONGER REPAYMENT TERMS. WORLD LIQUIDITY AND RESOURCE SITUATION LIKELY TO MAKE LIMITED OFFICIAL USE

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US REGRET HAVING LIMITED ITS ABILITY TO SUPPORT PROJECTS OF THIS CHARACTER. WOULD THINK STATE, COMMERCE, FEA WOULD CONCUR.

7. SOUNDINGS IN INTERNATIONAL BUSINESS COMMUNITY INDICATE THAT AVAILABILITY OF FINANCING AND MATURITIES ARE MORE IMPORTANT THAN INTEREST COSTS. THAT IS EXIM'S EXPERIENCE SINCE INTEREST RATE INCREASED TO 8 PERCENT.

GREAT PROBABILITY IS THAT MONEY COSTS WILL REQUIRE OTHER COUNTRIES TO FOLLOW EXIM ON INTEREST RATES. IF SO, US WOULD GET NO ADVANTAGE FOR PUTTING ITSELF IN POSITION WHERE IT MIGHT NOT BE ABLE TO BRING OFF IMPORTANT AND ECONOMICALLY SOUND PROJECTS.

8. DISCUSSIONS IN SOUTHEAST ASIA INDICATE JAPANESE AND FRENCH SHIFTING THEIR EXPORT CREDIT RESOURCES AWAY FROM ORDINARY SALES TRANSACTIONS TO LARGE RESOURCE DEVELOPMENT PROJECTS WHERE THEIR INTEREST RATE, LOCAL COST AND MIXED CREDIT ADVANTAGES WOULD BECOME EVEN MORE DECISIVE IF WE WERE TO BE RESTRICTED ON MATURITIES. MATURITIES QUESTION BECOMING EVEN MORE IMPORTANT NOW THAT EUROPEANS AND IN PARTICULAR THE JAPANESE ARE CONCENTRATING ON FINANCING FOR SUPPLIER CREDIT FOR LONG-TERM PROJECTS WHICH PROVIDE THEM WITH SCARCE RAW MATERIALS AND ENERGY. IT IS IN THESE POWER AND RESOURCE DEVELOPMENT AND PROCESSING AREAS, WHERE THE US HAS MAJOR POTENTIAL FOR EXPANDED US EXPORTS, AND WHERE THE FIERCEST COMPETITION FOR A GREATER MARKET SHARE CAN BE EXPECTED FROM EUROPEANS AND JAPANESE. THUS, NOW IS NOT THE TIME TO SACRIFICE EXIM'S ABILITY TO FACILITATE FINANCING NECESSARY FOR OUR LARGE TICKET EXPORTS AND LEAVE COMPETITORS WITH THEIR EXISTING ADVANTAGES AT THE VERY TIME THEY ARE MORE THAN EVER AIMING AT THE LARGE EQUIPMENT, RAW MATERIAL AND ENERGY DEVELOPMENT PROJECTS. IMPORTANT RESOURCE PROJECTS IN PHILIPPINES AND INDONESIA WOULD SHIFT TO CANADIAN SUBSIDIARIES OF US EQUIPMENT MAKERS TO GET LONGER TERMS OR TO JAPAN FOR COMBINATION OF LOWER INTEREST AND MIXED CREDITS IF WE WERE TO LIMIT MATURITIES.

9. HIGHER INTEREST RATES ON LONGER MATURITIES WOULD REQUIRE OUR ACCEPTING FURTHER INTEREST DISADVANTAGE IN LIMITED OFFICIAL USE

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EFFORT TO OFFSET THIS AND OTHER DISADVANTAGES WITH LONGER MATURITIES. AS STATED TO SECRETARY SIMON, READY TO ACCEPT THIS IN INTEREST OF AGREEMENT AND BELIEVE THIS TO BE APPROPRIATE AND ADEQUATE DETERRENT TO UNNECESSARY EXTENSION OF MATURITIES.

10. STRONGLY URGE THAT NO REPEAT NO PROPOSED AGREEMENT BE TABLED BY US AT BRUSSELS. BELIEVE TOTALLY NEW NEGOTIATING STANCE REQUIRED. EUROPEANS SEEM TO HAVE GATHERED IMPRESSION THAT US COULD ACCEPT FLAT LIMITATION ON MATURITIES WITH VERY FEW OR NO EXCEPTIONS. THIS IMPRESSION WOULD BE COMPOUNDED BY US MAKING AN OFFER CONTAINING A LIMITATION BASED ON INSUFFICIENTLY TESTED NOTION THAT EUROPEANS WILL NOT AGREE TO ANYTHING LESS THAN THAT. IN THESE CIRCUMSTANCES, BELIEVE WE SHOULD

MAT MAKE ANY SPECIFIC PROPOSAL BUT THAT APPROPRIATE US EMBASSIES SHOULD BE INSTRUCTED TO EXPLAIN TO RELEVANT OFFICES OF HOST GOVERNMENTS THAT US NOT WILLING TO LIMIT MATURITIES WITHOUT AT THIS TIME MAKING EXCEPTIONS THAT WILL PROTECT NEED OF OUR EXPORTERS FOR FLEXIBILITY ON MATURITIES IN ORDER TO OFFSET MORE FAVORABLE INTEREST, LOCAL COST AND MIXED CREDIT TERMS AS LONG AS EUROPEANS AND JAPANESE WISH TO RETAIN THESE ADVANTAGES. RATHER THAN CONFIRM IMPRESSION THAT WE CAN GIVE UP PRACTICE OF BASING MATURITIES ON PROJECT ECONOMIES, WE SHOULD MAKE CLEAR IN ADVANCE THAT WE ARE WILLING TO NEGOTIATE (A) ON COMPREHENSIVE AGREEMENT OR (B) ON EXCEPTIONS BASED ON PREVIOUS EXPERIENCE OR (C) ON HIGHER INTEREST RATES FOR LONGER TERMS AS SUGGESTED BY SECRETARY SIMON. BELIEVE THIS NECESSARY TO NEGATE ANY IMPRESSION THAT WE

ARE WILLING TO GIVE UP FLEXIBILITY ON MATURITIES WHILE OTHERS RETAIN ADVANTAGES IN OTHER AREAS.

11. FAILURE TO PREPARE GROUND BY FULLY EXPLAINING OUR POSITION IN ADVANCE WILL EXPOSE US TO EITHER BEING RUSHED INTO AN UNSATISFACTORY AGREEMENT AT BRUSSELS OR APPEARING UNREASONABLE AS WE HOLD TO POSITION NECESSARY TO PROTECT US ABILITY TO OFFSET ADVANTAGES EUROPEANS AND JAPANESE WANT TO RETAIN.

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